

Regulation Q Federal Reserve

Aug. 24, 1973

ARCHIVES

Federal Reserve Decides To Amend Regulation Q

Fed Reserve's bd of govs votes to amend regulation 'Q,' effective Sept 10, to make changes in either maturity or interest rate on existing certificates of deposit subject to early withdrawal penalty

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Requiem for Regulation Q: What It Did and Why It Passed Away

By R. Alton Gilbert

R. Alton Gilbert examines the effects of Regulation Q over the 53 years it was in effect. He concludes that, throughout its history, Regulation Q policy did not achieve the results intended for it. The policy as modified in 1966 became especially disruptive to the operations of depository institutions as they lost deposits whenever market interest rates rose above the ceiling rates. Congress decided in 1980 to phase out Regulation Q over six years. As the ceiling rates were raised and eliminated, thrift institutions lost the rate advantage that Regulation Q had given them on small-denomination time and savings deposits. As a result, the share of small-denomination time and savings deposits declined at thrift institutions as it rose at commercial banks. In response, thrift institutions have increased their share of large-

denomination time deposits substantially to avoid an erosion of their share of total time and savings deposits.

PRINT EDITION

August 24, 1973

April 06, 2011

Federal Reserve seeks comment on proposed rule to repeal Regulation Q, which prohibits the payment of interest on demand deposits.

July 14, 2011

Federal Reserve issues final rule to repeal Regulation Q, which prohibited the payment of interest on demand deposits

Glass-Steagall legislation

June 16, 1933

The Glass-Steagall Act effectively separated commercial banking from investment banking and created the Federal Deposit Insurance Corporation, among other things. It was one of the most widely debated legislative initiatives before being signed into law by President Franklin D. Roosevelt in June 1933.

Banking Branches Restriction

Bank Holding Company Act of 1956

May 9, 1956

With this 1956 legislation, Congress gave the Federal Reserve much more oversight of the banking industry.

Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994

September 1994

Signed into law by President Bill Clinton in September 1994, the law removed several obstacles to banks opening branches in other states and provided a uniform set of rules regarding banking in each state.

Title I: Interstate Banking and Branching

Title II: General Provisions

Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 - Title I: Interstate Banking and Branching - Amends the Bank Holding Company Act of 1956 to authorize the Board of Governors of the Federal Reserve System (the Board) to permit an adequately capitalized and adequately managed bank holding company to acquire existing out-of-State banks, subject to State age law. Cites circumstances under which State law shall still apply if it makes bank acquisition contingent upon retaining a portion of the bank's assets for call by a State-sponsored housing entity.

(Sec. 101) Prescribes interstate acquisition guidelines, including:

(1) Certain nationwide and statewide concentration limits upon the control of insured depository institution deposits; (2) community reinvestment compliance; and (3) retention of State taxation authority.

Amends the Federal Deposit Insurance Act (FDIA) to prescribe guidelines under which subsidiary depository institutions and affiliated insured savings associations may act as agents for their respective affiliates, consistent with safe and sound banking practices.

(Sec. 102) Authorizes the responsible Federal regulatory agency to approve interstate bank mergers as of June 1, 1997.

Prescribes guidelines under which: (1) States may elect to prohibit interstate merger transactions or permit early ones; (2) interstate mergers may involve acquisitions of bank branches without acquisition of the bank itself; (3) State age laws on bank acquisitions are preserved; (4) shell banks are deemed to have been in existence for the same period of time as the bank or branch acquired; (5) certain State laws apply to interstate banking operations; (6) operations of a bank resulting from an interstate merger may continue.

Makes technical and conforming amendments to affected statutes.

(Sec. 103) Amends the Revised Statutes and the FDIA to cite circumstances under which the Comptroller of the Currency may permit a national bank to establish de novo interstate branches if the law of the host State expressly permits such activity.

(Sec. 104) Amends the International Banking Act of 1978 (IBA) to prescribe guidelines under which foreign banks may: (1) establish interstate branching and agency operations; and (2) continue operation of branches, agencies or commercial lending company subsidiaries that were in existence prior to enactment of this Act.

(Sec. 105) Amends the FDIA to authorize host State regulatory authorities to: (1) examine an out-of-State bank branch to determine compliance with its laws; and (2) enter into cooperative agreements to coordinate their examinations of such branches.

(Sec. 106) Sets forth additional notification requirements for bank closures in low- or moderate-income areas.

(Sec. 107) Amends the IBA to prescribe guidelines under which each Federal banking agency is directed to review its regulations to ensure that: (1) they afford equal competitive opportunities to foreign and domestic banking organizations in their U.S. operations; and (2) foreign banking organizations do not receive an unfair competitive advantage over U.S. banking organizations. Subjects foreign banks to the same consumer protection laws that apply to their U.S. counterparts.

Provides that: (1) insured banks in U.S. territories will not be treated as foreign banks for purposes of retail deposit-taking rules; (2) a U.S. branch or agency of a foreign bank may not manage activities of offshore shell branches that are forbidden to U.S. banks; and (3) the requirements of the Community Reinvestment Act of 1977 continue to apply to branches under its purview which have been acquired by a foreign bank.

(Sec. 108) Amends the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 to modify the annual survey of bank fees and services submitted by the Board of Governors of the Federal Reserve System to the Congress and to modify the deadline for such report.

(Sec. 109) Requires Federal banking regulatory agencies to prescribe regulations which: (1) prohibit any person from engaging in interstate branching primarily for the purpose of deposit production; (2) include guidelines to ensure that each interstate branch meets the credit needs of its local community and market area; and (3) restrict the ratio of out-of-State loans by interstate branches.

(Sec. 110) Amends the Community Reinvestment Act of 1977 to include within its purview evaluations of the interstate branches of regulated financial institutions.

(Sec. 111) States that the authority of any State or its political subdivision to tax a banking entity is not affected by this Act.

Directs the Comptroller General to report to the Congress on: (1) statutory and regulatory requirements for insured depository institutions to collect and report deposit and lending data; and (2) any needed modifications to such requirements to ensure that this Act does not result in a material loss of information important to regulatory or congressional oversight of insured depository institutions.

(Sec. 113) Amends the Consolidated Farm and Rural Development Act to provide that notwithstanding State laws limiting loan interest rates, the rates on Federal loans for water and waste disposal and essential community facilities made to public bodies for non-profit organizations, or guaranteed loans under the Rural Industrialization Assistance program, shall be determined by the Secretary of Agriculture.

(Sec. 114) Amends the Revised Statutes to set forth notice and publication requirements before banking agency determinations preempting State law regarding community reinvestment, consumer protection, fair lending, or the establishment of intrastate branches.

(Sec. 115) Declares a three-year moratorium upon certain examination fees under the International Banking Act of 1978.

Title II: General Provisions - Amends the FDIA and the Federal Home Loan Bank Act to enable the Federal Deposit Insurance Corporation and the Resolution Trust Corporation, respectively, in their capacity as receiver or conservator, to revive certain tort

claims if the statute of limitations under State law has not expired more than five years before their respective appointments.

(Sec. 202) Expresses the sense of the Senate that the President should: (1) work to achieve a clearly defined and enforceable agreement with U.S. allies establishing a multilateral export control system for the proliferation of products and technologies to rogue regimes that would jeopardize U.S. national security; and (2) persuade such allies to promote mutual security interests by preventing rogue regimes from obtaining militarily critical products and technologies.

(Sec. 203) Amends Federal law regarding silver medals for Persian Gulf veterans to instruct the Secretary of the Treasury (the Secretary) to: (1) begin minting and issuing such medals whenever funds are available from the amounts received from sales of duplicate bronze medals and private donations to cover the costs of issuing and minting; and (2) to continue minting and issuing such medals subject to the availability of funds to cover costs, until all of the medals authorized have been issued.

(Sec. 204) Directs the Secretary to issue one-dollar silver coins emblematic of the 1995 Special Olympics World Games.

Mandates that the surcharges collected from the sale of such coins be paid to the 1995 Special Olympics World Games Organizing Committee, Inc.

(Sec. 205) Directs the Secretary to issue one-dollar silver coins to commemorate students who volunteer to perform community service. Mandates that all surcharges received from such coin sales be paid to the National Community Service Trust to fund innovative community service programs at American universities, including the service, research, and teaching activities of the faculty and students involved.

(Sec. 206) Instructs the Secretary to mint and issue one-dollar silver coins: (1) commemorating the life and work of Robert F. Kennedy; (2) emblematic of the United States Military Academy and its motto "Duty, Honor, Country." Mandates that the surcharges from coin sales be paid to the Robert F. Kennedy Memorial and the Association of Graduates, United States Military Academy, respectively.

(Sec. 208) Directs the Secretary to: (1) issue one-dollar silver coins to commemorate the United States Botanic Garden; and (2) pay all surcharges received from such coin sales to the National Fund for the United States Botanic Garden.

Authorizes the Comptroller General to audit such surcharge expenditures. Prohibits any coins from being issued unless the Secretary has received adequate security for payment.

(Sec. 209) Amends the Mount Rushmore Commemorative Coin Act to instruct the Secretary to: (1) distribute a specified amount from surcharges to the Mount Rushmore National Memorial Society of Black Hills; (2) return the remainder to the Treasury; and (3) distribute such sum retroactively, where appropriate.

(Sec. 210) Directs the Secretary to study and report to the Congress on the strengths and weaknesses of the U.S. financial services system in meeting user needs. Establishes the Advisory Commission on Financial Services to advise the Secretary on such study.

(Sec. 211) Amends Federal banking law to provide that a majority (currently, two-thirds) of the directors of a national bank association must have resided for at least one year in the State, Territory, or District in which the association is located.